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FOR DAS CHARLES R FRANK JR

FOLLOWING TELEGRAM FROM GENEVA DATED MARCH 22, 1978 SENT
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TAGS: UNCTAD, EGEN

SUBJECT: UNCTAD -- OUTLOOK FOR UNCTAD V AND COMMON FUND
NEGOTIATIONS

1. ON MARCH 21 I MET WITH UNCTAD SYG COREA TO DISCUSS
PRESENT SITUATION AND FUTURE OUTLOOK RE COMMON FUND.
INDONESIAN AMBASSADOR ALATAS (G-77 SPOKESMAN ON COMMON
FUND) AND MISSION EDMIN WERE ALSO PRESENT.

2. PRELIMINARY DISCUSSION CONCERNED WAY COREA ENVISAGED
UNCTAD V. HE STATED HE HOPES THAT BASIC SOLUTIONS WILL
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HAVE BEEN FOUND ON MAJOR ISSUES BY TIME OF UNCTAD V. HE
IS HOPING THAT TRANSFER OF TECHNOLOGY NEGOTIATIONS IN
OCTOBER 1978 WILL BE SUCCESSFUL, THAT BASIC ISSUES ON
COMMON FUND WILL BE RESOLVED, HOPEFULLY AT JUNE MEETING,
AND THAT DC FOLLOW-UP ON RECENT DEBT RESOLUTION WILL DEFUSE
THAT ISSUE. ACCORDINGLY, HE HOPES THAT UNCTAD V CAN BE
ESSENTIALLY A STOCK-TAKING MEETING WHERE THERE WILL BE

OCCASION FOR REVIEW, FORWARD THINKING AND REFLECTION, RATHER THAN A NEGOTIATING CONFERENCE ON ISSUES LIKE THE CF. HE NOTED IN PASSING THAT HIS DECISION AT UNCTAD IV TO PUT ALL HIS EGGS IN ONE BASKET (COMMODITIES) HAD BEEN RISKY, AND HE DID NOT WISH TO REPEAT IT.

3. TURNING TO COMMON FUND, COREA EXPRESSED THE VIEW THAT THE RECENT INFORMAL MEETINGS IN GENEVA INVOLVING UNDER SECRETARY COOPER AND OTHERS HAD BEEN VERY USEFUL. CONCERNING FIRST WINDOW, COREA'S ASSESSMENT WAS THAT GROUP B HAD CHANGED POSITION IN A MAJOR WAY IN THAT THEY WERE NOW ENVISAGING MUCH LARGER BORROWING ROLE FOR CF AS A RESULT OF THEIR WILLINGNESS TO HAVE LOWER DEPOSIT RATIO THAN 75 PERCENT ORIGINALLY PROPOSED BY GROUP B. COMMENT: WHILE GROUP B HAS ALWAYS CONSIDERED DEPOSIT RATIO AS BASICALLY A TECHNICAL MATTER, IF COREA WISHES TO DESCRIBE GROUP B FLEXIBILITY ON ISSUE AS MAJOR CONCESSION, PERHAPS IT IS IN OUR INTEREST TO LET HIM DO SO. END COMMENT. COREA ALSO CONSIDERED AS A MAJOR ADVANCE THAT MANY GROUP B COUNTRIES NOW ACCEPT AS A BASIC POINT THAT THE COMMON FUND SHOULD HAVE SOME FUNDS OF ITS OWN. HE NOTED THAT SUCH DIRECT CONTRIBUTIONS MIGHT BE RELATED NOT ONLY TO DIRECT ADMINISTRATIVE COSTS BUT SUCH MATTERS AS EXCHANGE RISKS AND INTEREST GUARANTEES WHICH WOULD MAKE THE COMMON FUND A MORE EFFICIENT INSTRUMENT. HE SAID THE SECRETARIAT WILL BE ANALYZING THE VARIOUS ECONOMIC RATIONALES FOR DIRECT LIMITED OFFICIAL USE

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CONTRIBUTIONS. HE NOTED THAT THE QUESTION OF MAKING THE CF A SOUND BORROWER WAS ONE ON WHICH FINANCIAL EXPERTISE WAS NEEDED AND RECALLED THAT THE SECRETARIAT WILL BE RAISING THE RELEVANT ISSUES AT A MEETING OF EMINENT BANKERS WHICH UNCTAD IS PLANNING FOR APRIL 28.

4. TURNING TO THE SECOND WINDOW, COREA SAID HE CONSIDERED THE THREE MAJOR ISSUES WERE (1) WHETHER THERE SHOULD BE A SECOND WINDOW, (2) WHAT IT SHOULD DO, AND (3) ITS SOURCES OF FINANCING. CONCERNING THE FIRST QUESTION, HE SAID HIS IMPRESSION WAS THAT ALL GROUP B COUNTRIES EXCEPT THE U.S. ARE BEGINNING TO RECONCILE THEMSELVES TO HAVING A SECOND WINDOW WITH THE PROVISIO THAT ITS ROLE BE LIMITED. ON THIS POINT HE SAID THE G-77 VIEW WAS THAT THE SECOND WINDOW WOULD FINANCE OTHER MEASURES INITIATED BY PRICE STABILIZING ICAS, BY OTHER TYPES OF ICAS, AND FOR COMMODITIES NOT AMENABLE TO ICA COVERAGE, I.E. ALL COMMODITIES WOULD BE COVERED. HOWEVER, UNLIKE FIRST WINDOW OPERATIONS, THE CF WOULD NOT BE UNDER ANY OBLIGATION TO FINANCE ANY SPECIFIC OM'S AND ALL PROJECTS WOULD BE UNDERTAKEN ON AN OPTIONAL BASIS. IN PARTICULAR, WITH REGARD TO OM'S FOR PRODUCTS WHERE THERE WAS NO ICA, THE G-77 ENVISAGED CF FINANCING

ONLY IN CASES WHERE THERE WAS CONSENSUS BETWEEN PRODUCERS AND CONSUMERS. CONCERNING THE GROUP B POSITION ON THIS MATTER, COREA'S ASSESSMENT WAS THAT GROUP B COUNTRIES OTHER THAN THE U.S. WERE FAVORABLE TO SECOND WINDOW FINANCING OF OM'S IN THE FIRST TWO OF THE PRECEDING CATEGORIES, BUT THERE WAS GREAT HESITATION CONCERNING COMMODITIES OUTSIDE ICAS. NOTE: IN A SUBSEQUENT CONVERSATION, THE DIRECTOR OF THE UNCTAD COMMODITIES DIVISION (MCINTYRE) TOLD US HE CONSIDERED THE G-77 WOULD BE WILLING TO SETTLE FOR SECOND WINDOW FINANCING OF OM'S INITIATED AND APPROVED BY ICAS. ON THE OTHER HAND, THIS MIGHT NOT BE A MAJOR ISSUE SINCE VARIOUS TYPES OF PRODUCER-CONSUMER BODIES CAN BE ENVISAGED TO PROVIDE A MECHANISM FOR OM REQUESTS ON ANY COMMODITY. END NOTE. CONCERNING SOURCES OF FINANCING, COREA SAID LIMITED OFFICIAL USE

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THAT OTHER GROUP B COUNTRIES HAD NO PROBLEMS WITH THE IDEA OF VOLUNTARY SECOND WINDOW FINANCING. THERE WAS SOME RELUCTANCE IN GROUP B, HOWEVER, TO ANY IDEA THAT THERE WOULD BE PERIODIC REPLENISHMENT EVEN ON A VOLUNTARY BASIS.O

COREA SAID HIS VIEW WAS THAT IN ANY CASE SECOND WINDOW FINANCING COULD ONLY BE VOLUNTARY SINCE THE SECOND WINDOW WILL NOT BE SELF-FINANCING AND THERE IS NO POSSIBILITY OF SOME KIND OF INTERNATIONAL TAX TO FINANCE IT. HE SAID, HOWEVER, THAT THE GROUP OF 77 WOULD LIKE SOME PART OF THE INITIAL MANDATORY CONTRIBUTIONS FOR THE COMMON FUND AS A WHOLE TO BE EARMARKED FOR THE SECOND WINDOW. COREA REALIZED THAT THIS RAISED A QUESTION OF PRINCIPLE, BUT ARGUED THAT IN PRACTICAL TERMS THE AMOUNTS INVOLVED NEED NOT BE MAJOR. THE INITIAL REQUIREMENT FOR A SECOND WINDOW MIGHT BE ABOUT \$200 MILLION. ON THE OTHER HAND, SOME \$200 MILLION WAS PLEDGED TO THE CF AT NAIROBI AND THE OPEC BANK IS NOW THINKING OF A CONTRIBUTION OF SOME \$300 MILLION. THUS ABOUT A HALF-BILLION DOLLARS WILL BE AVAILABLE FOR THE CF AS A WHOLE IF ALL COUNTRIES LIVE UP TO THEIR PLEDGES. (NOTE: IT SHOULD OF COURSE BE KEPT IN MIND THAT FOR AT LEAST SOME OF THESE PLEDGES THE COUNTRIES CONCERNED WOULD DEDUCT ANY ASSESSED CONTRIBUTIONS FROM THE AMOUNT OF THEIR VOLUNTARY CONTRIBUTIONS. IN SOME CASES, EVEN AMOUNTS PAID INTO ICAS AS PRODUCER OR CONSUMER CONTRIBUTIONS MIGHT BE DEDUCTED. FURTHERMORE, MANY OF THE PLEDGES WERE IN A HIGHLY CONDITIONAL FORM AND IN SOME CASES BY COUNTRIES WHICH WOULD HAVE DIFFICULTY IN PAYING UP THE HARD CURRENCY INVOLVED. END NOTE). U.S. SIDE NOTED THAT IF THESE AMOUNTS OF VOLUNTARY CONTRIBUTIONS ARE LIKELY TO BE AVAILABLE, IT IS HARD TO SEE WHY GROUP OF 77 IS SO KEEN ON HAVING FUNNEL FROM FIRST WINDOW TO SECOND. COREA ARGUED THAT QUESTION WAS IMPORTANT POLITICALLY AND PSYCHOLOGICALLY. LIMITED OFFICIAL USE

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ALATAS, ON THE OTHER HAND, SAID THAT HE AGREED TO IDEA OF STRICT FINANCIAL SEPARATION BETWEEN TWO WINDOWS, BUT HE CONSIDERED THAT THEY WOULD HAVE TO BE ADMINISTRATIVELY CONNECTED.

5. THERE WAS ALSO DISCUSSION OF WHAT WAS MEANT BY "OTHER MEASURES." ALATAS NOTED THAT UNDER SECRETARY COOPER HAD EXPRESSED VIEW THAT PRODUCT DIVERSIFICATION WAS ESSENTIALLY DEVELOPMENTAL IN NATURE AND SHOULD NOT BE CONSIDERED AS "OTHER MEASURE." ALATAS FELT IT WOULD BE DIFFICULT TO EXCLUDE DIVERSIFICATION ENTIRELY FROM SECOND WINDOW OPERATIONS BUT SUGGESTED THAT IT WOULD PROBABLY BE DESIRABLE TO LIMIT ITS ROLE TO INITIAL EXPLORATORY PHASE, WITH IFI'S OR AID AGENCIES TAKING OVER AT STAGE WHERE LARGE CAPITAL EXPENDITURES REQUIRED. NOTE: IN SUBSEQUENT CONVERSATION, MCINTYRE SAID IT WAS HIS VIEW THAT CF SECOND WINDOW SHOULD NEVER TAKE ON ENTIRE FINANCING RESPONSIBILITY FOR ANY PROJECT BUT SHOULD LIMIT ITS ROLE TO JOINT FINANCING. END NOTE.

6. ALL PARTIES TO THE DISCUSSION AGREED THAT IT WOULD BE DESIRABLE TO MAINTAIN AND INTENSIFY INFORMAL DISCUSSIONS OF OUTSTANDING ISSUES BEFORE ANY ATTEMPT TO RESUME FORMAL NEGOTIATING CONFERENCE. NOTE: MCINTYRE TELLS US SECRETARIAT HOPE IS TO HAVE TWO-WEEK MEETING IN JUNE TO REACH AGREEMENT ON KEY ISSUES, WITH DETAILED WORK ON ARTICLES OF AGREEMENT TO BE LEFT TO SUBSEQUENT DRAFTING GROUP. VANDEN HEUVEL UNQUOTE VANCE

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